



Memorandum

To: City Council
From: Ben Cowan
Date: 4/13/2016
Re: Bid Bond Requirement

As Public Works and Finance worked to develop a bid package for the slip lining project, we discovered that the City Code requires a bid bond for the amount of 100% of the estimated project cost. The existing language reads as follows:

- B. All invitations to bid for construction contracts in any amount greater than \$100,000 shall include requirements for bid security. Bid security shall be a bond provided by a surety company authorized to do business in the state of Colorado. Bid security shall be in an amount that covers 100 percent of the estimated project cost.

A bid bond is a guarantee to the City that the bidder can comply with the bid contract and that they can accomplish the job as laid out in the contract. The successful bidder must take on and implement the project once they are selected during the bidding process. The City does not know if a contractor is financially stable or has the necessary resources to take on a project. However, because of a bid bond, we can be more comfortable to award a project to a contractor knowing that if the project fails, the bid bond will compensate the City.

Typically, the bid bond ranges from 5% to 20%. Gunnison County requires 10%. To require the contractor to pay the entire 100% is excessive, basically implying that if they cannot commence the project or otherwise withdraw their bid after award, they would have to pay the entire project cost. While that would go very far to prevent this from happening, it also would raise the cost of the project significantly in order for the contractor to pay the bond premium. In practice, the City's bond packages have required 5% to 10%.

Other bidding requirements such performance bonds and liquidated damages will continue to be determined on a case by case basis.

We would like the Council to consider the attached ordinance for adoption to bring the City Code into agreement with industry standards and existing practice. The proposed language includes a 5% bond for projects over \$100,000 and 10% for projects over \$500,000.

**ORDINANCE NO. 6
SERIES 2016**

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF GUNNISON,
COLORADO, AMENDING CHAPTER 2.20, PURCHASING POLICY AND
PROCEDURE, OF THE CITY OF GUNNISON MUNICIPAL CODE.**

WHEREAS, Article XI, Section 11.8, of the City of Gunnison Municipal Home Rule Charter provides that “The Council shall establish by ordinance the procedure for entering into contracts for purchases and contracts for construction of public works...”; and

WHEREAS, the City Manager and Director of Finance have recommended to the City Council certain revisions to Chapter 2.20, Purchasing Policy and Procedure, of the City of Gunnison Municipal Code, which revisions the City Council wishes to adopt;

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF GUNNISON,
COLORADO, ORDAINS THAT:**

Section 2.20.150.B. of the City of Gunnison Municipal Code is hereby amended to read as follows:

- B. All invitations to bid for construction contracts in any amount greater than \$100,000 shall include requirements for bid security. Bid security shall be a bond provided by a surety company authorized to do business in the state of Colorado. Bid security for construction contracts in any amount greater than \$100,000 but less than \$500,000 shall be in an amount that covers 5 percent (5%) of the estimated project cost. Bid security for construction contracts in any amount greater than \$500,000 shall be in an amount that covers 10 percent (10%) of the estimated project cost.

INTRODUCED, READ, PASSED AND ORDERED PUBLISHED this ___th day of ___, 2016, on first reading, and introduced, read, passed and adopted on second and final reading this ___th day of _____, 2016.

Mayor

SEAL:

ATTEST:

City Clerk

Published by Title in the
Gunnison Country Times